

Federal Housing Finance Agency
Office of Inspector General



FHFA's Compliance with its Documentary Standards for Issuing Housing Finance Examiner Commissions

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Executive Summary

The Federal Housing Finance Agency (FHFA or Agency) has safety and soundness oversight responsibility for Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (FHLBanks). FHFA's oversight responsibilities are critical because, among other things, the Enterprises own or guarantee more than \$5 trillion in mortgage assets. Should either or both Enterprises sustain losses that exceed their decreasing capital reserves, the Department of the Treasury, and hence taxpayers, will be responsible for their losses.

FHFA officials previously reported to FHFA's Office of Inspector General (OIG) that the efficiency and effectiveness of the Agency's examination program were impeded by an insufficient number of commissioned examiners. According to FHFA, commissioned examiners have the skills and technical knowledge necessary to lead the examination of a major risk area at the entities it supervises. In 2011, the Agency publicly acknowledged its need for an examiner commission program to provide classroom and on-the-job training (OJT) to develop the technical competencies and practical examination experience of their examiners.

In June 2013, FHFA established its Housing Finance Examiner Commission Program (HFE Program) to enhance its examination capacity. Under the HFE Program, an examiner may receive an HFE commission in one of two ways. An examiner can enroll in the HFE Program, complete its classroom and OJT requirements, and pass a final examination administered by FHFA. Over the past two years, we have issued a compliance review and a status report on FHFA's implementation of its HFE Program. FHFA reported to us that, as of June 2017, it had not issued any HFE commissions to examiners enrolled in the HFE Program.

Alternatively, an examiner who earned a safety and soundness commission at another financial regulator may receive an HFE commission by providing FHFA with specific documentation of the prior commission. Between June 2013 and February 2017, FHFA made eligibility determinations for 70 employees based on their claims of having earned commissions from other federal or state financial regulators. FHFA determined that, based upon the documents the applicants had submitted, 69 of the 70 were previously commissioned and eligible to receive HFE commissions.

We undertook this review to verify whether FHFA satisfied its own standards when it made eligibility determinations for these 70 HFE commission applicants. We determined that FHFA met its standards in 68 of the 70 determinations (97%). For one of the two outlier determinations, FHFA



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found that the applicant qualified for an HFE commission, even though the applicant submitted no evidence of a prior commission. In the other, FHFA concluded that the applicant qualified for an HFE commission based on records that failed to meet the Agency's standards.

Our review identified no systemic weakness in FHFA's efforts to determine eligibility for HFE commissions. We leave to FHFA to determine whether the two exceptions that we identified create a risk that an unqualified applicant could receive an HFE commission sufficient to warrant corrective action.

This report was prepared by Patrice Wilson, Senior Investigative Evaluator, with assistance from Karen E. Berry, Senior Investigative Counsel, and Wesley M. Phillips, Senior Policy Advisor. We appreciate the cooperation we received from FHFA in completing this report.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on our website, www.fhfaog.gov.

Richard Parker

Deputy Inspector General for Compliance & Special Projects

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ABBREVIATIONS

Enterprises	Fannie Mae and Freddie Mac
FHFA or Agency	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
HFE	Housing Finance Examiner
OIG	Federal Housing Finance Agency Office of Inspector General
OJT	On-the-Job Training

BACKGROUND

OIG's 2011 Evaluation Report Found that Only One-Third of the Agency's Examiners Were Commissioned

In a September 2011 evaluation report on the Agency's capacity to examine the Enterprises and the FHLBanks, we found that only about one-third of FHFA's examiners were commissioned, and the Agency lacked a commission program.¹ At that time, FHFA's examination staff included roughly 40 examiners who had previously received commissions from a federal or state financial regulator.

Agency officials reported to us that the efficiency and effectiveness of the Agency's examination program were impeded by an insufficient number of commissioned examiners. They advised that FHFA was in the early stages of developing an examiner commission program patterned after programs at other federal financial regulators.

FHFA Rolled Out the HFE Program in 2013

FHFA completed development of the HFE Program in 2013 and opened enrollment to Agency employees in August of that year. In its *2013 Performance and Accountability Report*, FHFA explained that its award of an HFE commission "will indicate whether an examiner is qualified to lead the examination of a major risk area at Fannie Mae, Freddie Mac, and the Federal Home Loan Banks [and] . . . ensure an examiner has the skills and technical knowledge necessary to evaluate the condition and practices of the entities that FHFA supervises."²

According to FHFA, there are two ways for an examiner to obtain an HFE commission. An examiner may complete the OJT and classroom requirements of the HFE Program and pass a final examination administered by FHFA.³ FHFA reported to us that it had not issued any HFE commissions as of June 2017 to examiners enrolled in the HFE Program.⁴ Alternatively, an examiner who received a safety and soundness commission from another financial

¹ OIG, *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (EVL-2011-005) (Sept. 23, 2011).

² FHFA, *2013 Performance and Accountability Report, Planning for the Future*, at 33 (Dec. 16, 2013).

³ All FHFA safety and soundness examiners hired after July 17, 2013, are required to complete the HFE Program unless they hold a safety and soundness commission from another federal or state financial regulator. Employees who started at the Agency prior to July 17, 2013, may enroll in the HFE Program on a voluntary basis.

⁴ In March 2017, FHFA administered the first HFE final examination to four HFE enrollees and expects the grading to be completed by July 2017.

regulator may submit specific documentation of such a commission. According to FHFA’s *Overview of FHFA’s Examiner Commission Program (Overview)*, issued on June 11, 2013, this required documentation consists of:

- A safety and soundness examiner commission certificate issued by another federal or state regulator,⁵
- A Form SF-50⁶ from another federal financial regulator indicating that the applicant had been promoted to a commission grade, and/or
- Other documentation from a financial regulator indicating receipt of a commission.

Between June 2013 and February 2017, FHFA made HFE commission eligibility determinations for 70 applicants and found that 69 of the 70 applicants were qualified to receive commissions. Of the 69 applicants, FHFA records show that the Agency has physically delivered HFE commission certificates to 59 of them.⁷ Of the 59 applicants who received their HFE commission certificates, 45 remain with FHFA – an increase of five commissioned examiners over the 40 commissioned examiners that the Agency employed in 2011.

We initiated this special project to assess whether FHFA met its own standards, established in the *Overview*, for the 70 HFE commission eligibility determinations it made between June 2013 and February 2017.

FACTS.....

We determined that FHFA met its own standards for the 70 eligibility determinations it has made, with two exceptions.

⁵ Federal financial regulatory agencies include the following: Office of the Comptroller of the Currency, Farm Credit Administration, Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, National Credit Union Administration, and the former Office of Thrift Supervision.

⁶ A Standard Form 50 (SF-50), Notification of Personnel Action, documents information about a federal employee, such as his/her series, grade, job classifications, salary, and benefits.

⁷ FHFA reported that it has determined that five current employees were previously commissioned by a financial regulator and are eligible to receive HFE commissions but it has not yet delivered commission certificates to them. Another five employees that were determined to be eligible for HFE commissions left the Agency prior to receiving the commissions.

FHFA Satisfied its Own Standards in Making 68 of 70 HFE Commission Eligibility Determinations

We found that FHFA met its own standards for 68 of its 70 HFE commission eligibility determinations (97%). According to FHFA's records:

- 52 applicants provided a commission certificate or a letter from the issuing agency confirming the applicant had previously received a commission and FHFA determined that these applicants satisfied its eligibility criteria,
- 15 applicants provided an SF-50 documenting that the applicant had been promoted to a commission grade and FHFA determined that these applicants satisfied its eligibility criteria, and
- 1 applicant provided two commission certificates indicating that the prior commissions were awarded for disciplines other than safety and soundness and FHFA determined that this applicant had not satisfied its eligibility criteria.

FHFA's Eligibility Determinations Fell Short of FHFA's Standards for Two Employees

FHFA did not meet its own standards in making two of the 70 eligibility determinations. For one employee, a senior management official who was not an examiner, the FHFA executive supervising the HFE Program inquired whether this senior management official was interested in obtaining an HFE commission and asked this official to provide evidence of a prior commission issued by a federal or state financial regulator. FHFA provided no records to us showing that this senior management official submitted the requested documents. Nevertheless, FHFA determined that this senior management official was eligible to receive an HFE commission. That official is no longer employed by FHFA.

For the second employee, FHFA also sought evidence that a commission had been previously awarded by a federal or state financial regulator. This employee reported to FHFA that the prior employer, a federal financial regulator, was unable to confirm that the employee had ever enrolled in, or completed, its examiner commission program. The employee did not produce a safety and soundness examiner commission certificate issued by this other federal financial regulator, a Form SF-50 from this other federal financial regulator indicating that the employee had been promoted to a commission grade, or any other document originating with the other financial regulator. Instead, the employee provided FHFA with a document that the employee had submitted to this other financial regulator in which the employee claimed to have held a supervisory position. FHFA assumed that the supervisory position required a commission and, based on this unsupported assumption, determined the employee was eligible to receive an HFE commission.

CONCLUSION.....

FHFA established standards in its *Overview* to ensure that it awarded HFE commissions based upon clear documentation that the employee-applicant had previously been awarded a safety and soundness commission by another federal or state financial regulator. We found that FHFA met these standards for 97% of the eligibility determinations it made between June 2013 and February 2017. We leave to FHFA to determine whether the two exceptions that we identified create a risk that an unqualified applicant could receive an HFE commission sufficient to warrant corrective action.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our overall objective for this report was to determine whether FHFA adhered to its documentary standards as established in the *Overview* for issuing HFE commissions based on an applicant’s claim that he or she possessed a commission from another financial regulator. Our review period was June 2013 through February 2017.

We asked FHFA to provide documentation for HFE commission eligibility determinations (including approvals and denials) during our review period. We reviewed the documentation upon which FHFA relied to make HFE commission eligibility determinations for 70 applicants (i.e., commission certificate, SF-50 indicating promotion to the commission grade, and/or other documentation from the issuing federal or state financial regulator indicating receipt of a commission).

OIG identified 15 determinations that were based on SF-50s. In 13 of these cases, it was not immediately clear to us that the SF-50 indicated that the individual had been promoted to a grade level that could only be achieved if the applicant had satisfied the respective financial regulator’s examiner commission requirements.⁸ Accordingly, we reviewed a 2011 FHFA benchmarking study regarding commission programs at other financial regulators. This benchmarking study included information on commission-level grades at other financial regulators. We also followed up directly with the respective financial regulators via their OIGs to verify the commission-level examiner grades reflected on the 13 SF-50s upon which FHFA relied to make the HFE eligibility determinations.

We also interviewed FHFA officials responsible for HFE commission eligibility determinations.

We conducted our review during the period March 2017 to June 2017 under the authority of the Inspector General Act and in accordance with the *Quality Standards for Inspection and Evaluation* (January 2012), which were promulgated by the Council for the Inspectors General on Integrity and Efficiency.

FHFA provided a technical comment on a draft of this report which we included in the final report.

⁸ In the two other cases, the SF-50 included the word “commission.”

ADDITIONAL INFORMATION AND COPIES.....

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